The performance of securities mentioned within this letter refers to how the security performed in the market and does not reflect the performance attributed to the core equity portfolio. Please see the chart at the end of letter, which reflects the full list of contributors and detractors based on each security's weighting within the core equity portfolio.

For a copy of Ensemble Capital's equity strategy performance track record, please email a request to info@ensemblecapital.com.

On March 20, 2020, the day before the bottom tick of the COVID driven market crash, Ensemble Capital held a public conference call in which we discussed how it was the tying together of the global economy that had given rise to so much global prosperity and such a massive decline in global poverty. But it was this same interconnectivity that the COVID virus was now using to encircle the globe. You can find a transcript of that conference call here. Today, we want to revisit this theme to discuss why we see so much new value being created in the years ahead, value that our portfolio of companies are helping to develop.

The past few months have made it clear that one of the greatest challenges the world has seen in modern times, a once in a century global pandemic, continues to be very challenging to resolve as new Coronavirus variant waves have continued to spread. It continues to cause great tragedy in the lives lost, numbering over 4.5 million globally and over 700,000 in the US alone and continues to disrupt people's lives and behaviors the world over.

As with many tragic experiences in life, it is also demonstrating the power of humanity's ability to rise to great challenges with creativity, ingenuity, and cooperation, both in developing new inventions to solve problems and in our ability to coordinate large groups of people and resources to deal with them. Never before have we been able to design, test, manufacture, and distribute billions of doses of new drugs around the world, all in the span of a year.

In fact, over 6 billion doses of vaccines have been administered globally to nearly 40% of the world population, an amazing feat of modern science and logistics. However, much work remains to be done in vaccinating a substantial proportion of the remaining 60%, without which they and we all remain threatened with the ongoing pandemic that threatens us with new variants selected to try skirting our increasing collective immune defenses.

Fortunately, vaccines have worked remarkably well in preventing severe disease and deaths despite the mutating virus, providing hope for a future where COVID is no longer a widespread health threat. Among populations with the majority of individuals vaccinated, we've seen the economic activity of people substantially remain steady despite the new variant driven surges as people have learned to adapt their behaviors in the face of a second year of the pandemic. This is part of the resilience of people and societies we've come to observe.

It's not that humanity has not faced such challenges before. In fact, the effects of deadly infection had been the historical norm prior to modern medicine's discovery of vaccination and antibiotics as well as innovations that disinfected water and managed sewage. It's the reason child mortality approached nearly 50% historically regardless of one's status in life, be it emperor or servant, but has plummeted over the decades.

> "Nathan Rothschild was surely the richest man in the world when he died in 1836. But the cause of his death was an infection—a condition that can now be treated with antibiotics sold for less than a couple of cents. Today, only the very poorest people in the world would die in the way that the richest man of the 19th century died." -Max Roser, Our World in Data

But we have been so privileged to live during a time that benefitted from the invention of modern medicines and public infrastructure that have kept the most pernicious infections at bay for a large majority of the developed world population and growing segments of the developing world.

Modern day social and technological structures are also what allowed billions of people around the world to take shelter at home for weeks while also being able to work and provide for their families. They were able to utilize technological infrastructure that had been built over only the past two decades. The government and monetary responses are also a form of innovation that was able to respond and effectuate actions at a speed and scale that allowed millions of people and businesses to bridge through the Shelter in Place orders without the economic devastation they would have otherwise experienced, compounding the public health tragedy.

When you think of the confluence of all the technological advancements underpinning modern day life, it is an amazing testament to all the people in society who have played a role big and small, directly or indirectly, to allow us all to have survived and continue living our lives through a disruptive period that tears right into the heart of the operating system of humanity and our societies – our need to socialize and cooperate both for our psychological and our economic welfare.

So much of that "technology" is not just technical but also social. It's the role that companies play in bringing together groups of people to coordinate their ingenuity with the required mix of resources and talent in order to bring new solutions to bear that fix problems or enhance the quality of our lives. They can be big problems like developing and distributing vaccines to deadly global diseases or they can be minor problems like how to watch TV on a mobile device during your commute.

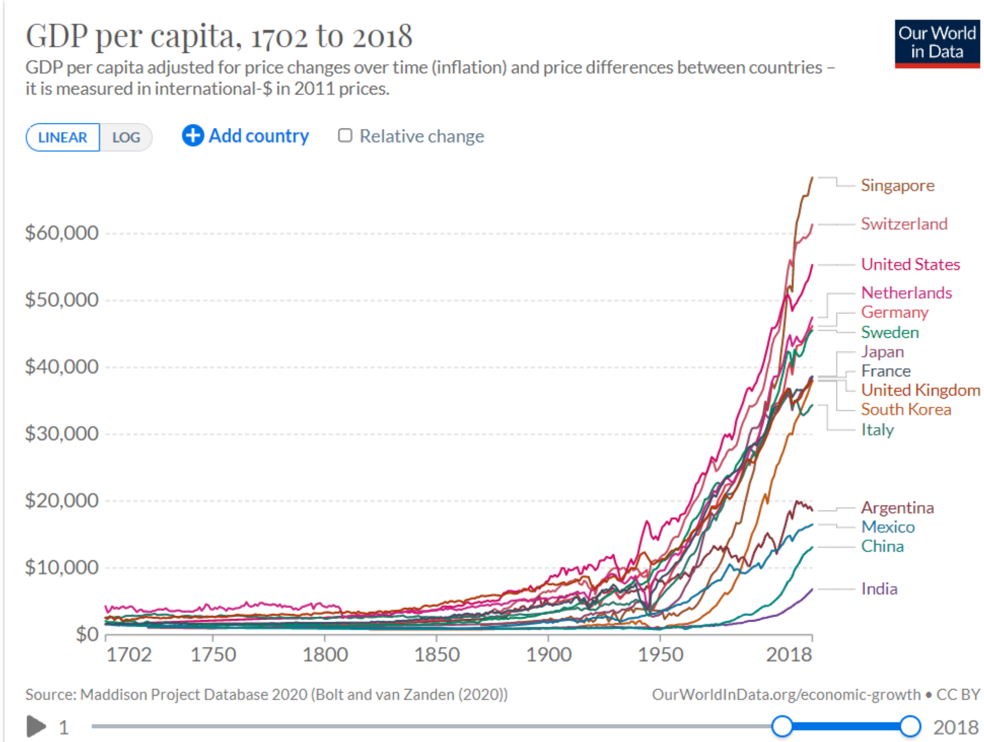
It's a continuing story of humanity and its ability to solve problems. It's people's ingenuity that has been at the heart of value creation for centuries, that over time has led to more opportunity, higher productivity, and generally better living standards. The invention of the scientific method and the industrial revolution greatly accelerated our ability to develop solutions that scaled humanity's ingenuity, leading to exponential growth in both the number of people we could feed and improvement in the quality of their lives.

If "the computer is the bicycle for the mind" then the oil-fed combustion engine magnified humanity's muscle a million-fold, feeding 100x more people, reducing extreme poverty by 90% even while the population grew 8-fold. The smartphone is the pocket-sized supercomputer that connected 5 billion people to all the information, education, and markets in the world, even in places that didn't traditionally have running water or electricity (people have devised solar-based solutions for the express purpose of charging their smartphones)!

Just as with vaccines, there is still much work to be done to improve the lives of billions around the world because $2/day or even $5/day is not enough to thrive in a modern world. And as we've come to realize, utilizing fossil fuels for energy magnification is not sustainable for our way of life on Earth for much longer. But technology appears poised to again help us leap in the right direction in the form of cheap, renewable energy and electric transportation. Those connected smartphones might just be as important an innovation as the combustion engine in fueling accelerated gains in living standards for those earning less than $10/day over the next generation, with many of the newly connected engineers and entrepreneurs empowered to solve the next set of local and global challenges.

The progress we've made in just 200 years due to an increasing pace of value creation from the positive feedback loops that technology creates is simply mind-blowing. We are living twice as long and the standard of living has improved dramatically for most people, with developed nations in the East and West seeing an approximately 20x increase in their standard of living.

Ingenuity is not just monopolized by the social construct of the "company" but also emerges within other groups of diligent mission-oriented people working together in governments, schools, and many other organizing social constructs. The rapid development that Singapore, South Korea, and China have made over just the past generation has been astounding in part driven by globalization facilitated by technology, education, and companies but also locally relevant government social policies and investments.



And yet there is much more to come as more people and countries work up the development curve and more needs and problems are better solved. It's this bigger picture that we keep in mind as investors, that excites us about the possibilities of uncovering those companies that can be the foundations for future value, enabling people and companies to thrive in ways that also result in highly productive, competitively advantaged, durable businesses.

There are two concepts we'd like to finish this discussion of progress and value creation with – first, the idea that the modern day digitally connected world creates a global opportunity for companies that create, distribute, and analyze information. Information really is the air of commerce while credit and payments are its lifeblood. And the second is the idea that when a company can create value for all its stakeholders while building a differentiated high value service for its customers, it can really create a wonderful long duration business.

As an example, Google has its mission "to organize the world's information and make it universally accessible and useful". It's hard to imagine modern life without Google's essential search or email services not to mention Android operating system powering 80% of the world's most accessible smartphones. It also brought Google classroom to millions of students and Khan Academy and Ted Talks to billions across the globe… for free. Its paid ad services allow millions of small and large businesses to connect to consumers looking to fill a need they have and find the best prices and source to fill that need.

Similarly, as we'll discuss in depth later in this letter, Booking Holdings complements Google in helping consumers and hotels connect efficiently within the travel vertical, so that consumers' dollars goes further and the independent hotel operator in a small, unknown beach town can market to customers from around the world.

Commerce across the internet is hard to transact without digital payment services like Mastercard, which massively reduces the friction for commerce to happen across millions of businesses around the world, both physical and virtual. Broadridge also reduces friction for tracking trillions of dollars in financial assets that are traded across institutions every day.

The supply chain constraints the US and many other countries are experiencing are due to a shortage of transportation capacity, which we normally don't even think about but feel very tangibly and sometimes distressingly when the service cannot be performed adequately as in the case of grocery stock outs or shortages of fuel to heat your home. Companies like Old Dominion and Landstar, which we profile later in this letter, play a critical role in coordinating thousands of truckers and shippers to move goods efficiently around the country while creating well-paying, reliable jobs for a typically tough industry and lifestyle.

Illumina, Intuitive and Masimo are all using data in the healthcare setting, effectively creating interfaces between biology's analog world and computing's digital world. Illumina creates instruments and reagent chemistries that enable digitizing the DNA/RNA code of life allowing machine learning to accelerate learning, diagnosis, and drug/therapy *composition* (not just discovery) to treat the thousands of untreatable human ailments.

Intuitive is transforming surgeons' abilities by bringing them bionic powers thru its networked robotic systems providing enhanced capabilities thru digital vision, augmented reality, micro precision, and telesurgery to improve outcomes and lower costs for more patients near and far.

Masimo is leveraging digital algorithmic and hardware technologies used in smartphones to vastly improve the accuracy and efficiency of tracking patients' vitals for critical care in hospitals and remotely at the patients' home.

Finally, families forced to shelter in place together found delight in Nintendo games and Netflix shows, which proved how important entertainment is in bringing friends and families together in a room, or across distances, in order to ease the stress and burden of the reality of life, even more so with COVID life. Nintendo does this with classic multi-generational IP characters like Mario, Luigi, and Zelda while Netflix does this with stories from around the world that remind us just how much we all have in common during both our times of happiness and despair. Both companies remind us of our shared delights, worries and our shared humanity. Across the globe millions share stories in English, Spanish, French, German, Korean, Hindi, and Japanese to name just a few of the languages in which Netflix is creating globally popular content.

Across all of these competitively advantaged businesses, we see thousands of people hard at work trying to fill the needs of the customers they serve. All of these are businesses that use technology to coordinate and deliver services to their customers at scale which necessarily have social and economic impact.

All these businesses organize talented people effectively with capable leaders, strong cultures, and capital in order to make it productive. In a zero-rate world, well-managed, talented people can put that capital to good use to improve the well-being and daily lives of the customers they serve, and in doing so improving the living standards of their employees and other stakeholders, with shareholders being one among them.

When we think of the intrinsic value of businesses, it's the people working millions of person-hours every day that are compounding it over time. We absolutely love the win-win-win combination of value creation in which all stakeholders a company interacts with go out of their way to help it succeed because they all benefit from its success. To paraphrase Peter Kaufman, CEO of Glenair and editor of Poor Charlie's Almanac: Stakeholder risks and benefits are multiplicative - when any of the stakeholders isn't treated fairly, it creates a big off balance sheet liability that ultimately risks long-term material value destruction for all stakeholders (a concept very similar to Ensemble's articulation of "mortgaging the moat." But when they're all seen as part of the same team, and natural tensions between them are well managed, their efforts will multiply for all to benefit with the company's productive health at its core.

We'll be turning to a discussion of Booking Holdings and Landstar Systems in a moment, but first we'll review our top contributors and detractors in the portfolio during the third quarter.

Notable detractors from our performance came from our investments in Illumina, Mastercard, and Nintendo.

Illumina: While the stock has had quite the turbulent year so far, the company's fundamentals have been persistently improving as demand for its sequencing instruments and consumables continues to grow in a robust manner with estimated revenue growth over 30% in 2021, after a decline of 9% in 2020. The growth is being spurred by increasing use of sequencing in applications spanning cancer treatment and screening, prenatal testing, population health studies, and tracking new Coronavirus variants. However, its recent acquisition of GRAIL, which Illumina had previously founded and spun out for development, has presented legal challenges from the competition monitoring authorities in the US and EU. GRAIL has recently begun commercializing the only non-invasive 50 cancer screening test leveraging Illumina's gene sequencing technology which we believe will be immensely beneficial in finding and treating cancers early and will be very valuable for shareholders in the long term given the large market opportunity. Despite the opportunity ahead, the uncertainty around GRAIL caused the stock to sell off by 13% in the third quarter, but the stock is still up 11% for the year.

Mastercard: Mastercard's role as a payment network has seen strong growth as the economic recovery around the world continues, and customers go back to more regular spending habits. Core spending growth of 38% against the highly impacted COVID affected quarter last year and 25% over 2019 levels are fueling revenue growth of 20%+ despite still depressed cross border fees, whose expected recovery from a resumption in travel, has been delayed by the Delta variant waves. In addition, a lot of news flow about potential rival small but fast-growing payment tech firms has dampened sentiment on the stock but we believe the bar is high for firms to compete instead of partnering with Mastercard to transact payments. The stock finished the quarter down 3% and is flat for the year.

Nintendo: Having had a banner year and a quarter last year with both its Switch console sales and megahit Animal Crossing: New Horizons game release, helped in part by COVID restrictions, Nintendo posted sales that were down -10% vs a year ago while operating income was down -17%. Consequently, the stock has had a challenged performance in the quarter, falling 19%. However, looking past the one-time nature of the comparison effects of the COVID bump last year, the more important fundamental metric to track for the company's future business is its installed base of Switch consoles. The Switch installed base of customers has grown by about 50 million units to over 85 million since 2019, aided by a surge in interest in family gaming. We believe the family gaming trend is an important and persistent one and the huge increase in the installed base bodes well for future game and digital subscription sales going forward.

On the more positive side, we saw notable performance contribution from Chipotle, Google, and Netflix.

Chipotle: Chipotle reported their best restaurant-level results since before the foodborne illness outbreak in 2015. Along with raising employee wages, Chipotle raised prices across its menu and saw very little resistance to these price hikes. It held onto 80% of the digital orders it saw during 2020 and its digital orders accounted for nearly 50% of the quarter's revenue. As a result of its strong momentum, management formally raised its long-term average unit volume target from $2.5 million to $3 million and hinted it could go even higher. Chipotle continues to roll out more Chipotlane drive-thru locations, which generate higher sales and returns on invested capital versus non-Chipotlane stores, while offering customers a more convenient pickup option. They also noted they are pushing forward with international expansion plans. The stock was up 19% in the third quarter and is up 34% year to date.

Google: The combination of COVID's acceleration of digital advertising spending, much improved execution in its cloud business, and very strong double-digit economic growth have all come together to supercharge Alphabet's growth this year, with second quarter revenue growth of 62%. Compared to the second quarter of 2019, revenue grew 26% compounded over the two years. The scale of growth at Google is incredible, adding $24 billion in sales in the quarter over the year ago period, substantially beating Wall Street expectations. YouTube was particularly strong with advertising revenue growth of 84% as consumer engagement growth was complemented by advertising dollars shifting online from traditional TV. In addition, the Cloud business has really shown strong, sustained momentum under the leadership of its CEO Tom Kurian, who has done a tremendous job in the business over the last three years. The stock rose 10% in the quarter and is up 54% year-to-date.

Netflix: Netflix stock had a disappointing first half of 2021 performance, treading water while the S&P 500 rallied, after a very strong 67% return in 2020. It benefited from the global pandemic in 2020, signing on 36.6 million new subscribers vs the typical 25 million or so it typically does. Total subscribers exceeded 200 million, up 22% over the previous year. However, in the first half of 2021, new subscriber additions slowed substantially, totaling only 5.5 million due to slower new content additions impacted by production delays, a resumption of outdoor activity as people everywhere adjusted to living with COVID, and the impact of a "pull-forward effect" on subscriber growth in last year's very strong results. The third quarter saw new content velocity start to pick up, which is usually what drives new subscribers to the service, with expectations of an even stronger content slate going into the final quarter of the year, causing the stock to increase 15% in the quarter.

Company Focus: Booking (BKNG) and Landstar Systems (LSTR)

Booking : On the March 20, 2020 conference call we referenced at the beginning of this letter, we discussed our assessment of online travel agent Booking Holdings during the initial phase of the pandemic. At that time, we explained why we continued to hold a position in the company. We highlighted that while we fully expected demand to collapse and be slow to recover, our analysis indicated that they were very well positioned to survive the pandemic even if it lasted much longer than expected. And we said that companies that survived the pandemic would be well positioned to thrive on the other side

The key for us to holding the stock was our belief that traveling is hardwired into human DNA. While we could not know how long the pandemic would last, we were certain that when it was once again safe to travel, business would boom once again.

Today, more than 18 months later, travel has come roaring back despite the pandemic still not having come to an end. There continues to be significant barriers to travel, such as severe restrictions on international travel and the general health concerns of travelers. But in areas where people are allowed to travel, such as domestically within the United States, leisure travel has boomed.

During the first two weeks of July, which included the 4th of July holiday and occurred during a low point of COVID case counts prior to the rise of the Delta variant wave, total US hotel occupancy was down less than 5% vs the same period in 2019, while prices for hotel rooms were actually up. This strong recovery occurred despite business travel still being extremely depressed.

US domestic hotel performance shows us how humans will behave when they perceive COVID risk to be low and they are not legally restricted from traveling. But the majority of Booking's business is in Europe, where travel patterns have yet to recover to the extent seen in the US due to a weaker economic recovery, a slower rollout of vaccines, and intra Europe travel restrictions. So, much of the company's recovery is still to come.

For the full second quarter of this year, which began in April while vaccine rollouts were still ongoing, Booking's total global hotel nights booked were still down 26% vs the same quarter in 2019. We don't expect that Booking will report hotel reservations that exceed 2019 levels until sometime next year. But by the summer of 2022, after missing two years of summer vacations and international travel considered safe once again, we believe that Booking's business will be back and continue to grow significantly for years to come.

But even if travel does return to pre-COVID trends, why will Booking thrive in in the post-COVID world?

It is true that business travel may be permanently lower after COVID as two years of Zoom calls has made some businesses realize they simply don't need to spend as much money flying employees around the globe. But importantly Booking is highly focused on the leisure travel market and there are no indications at all that COVID has permanently impaired people's desire to travel the globe on vacation.

It is true that alternative accommodations such as those offered by Airbnb will likely continue to grow faster than hotel bookings. Airbnb, which is the leader in this market, has reported that their own number of new bookings in the second quarter of this year was down less than 1% vs the same quarter in 2019. But this is partially due to Airbnb's greater exposure to the US vs Europe relative to Bookings. This is an important category of lodging that better meets some leisure travelers needs than a hotel room. However, during the pandemic, travelers have very rationally placed a high priority on limiting their exposure to other people. This made alternative accommodations much more desirable relative to hotels, but for a reason that we do not believe will persist as the world becomes more fully vaccinated and the risks of COVID recede.

Importantly, Booking has built their own robust alternative accommodation business that made up over 20% of total room nights booked prior to COVID and which has been averaging close to 30% of room nights during the pandemic as the drivers of Airbnb's strong results also support Booking's business in this area.

As we've said in the past, we admire Airbnb's business, and we would consider investing in the company at the right price. We are confident that Airbnb and Booking can both win. But in the near term, we have not yet gotten comfortable that Airbnb's long-term plan to go from a barely profitable business to generating fantastic levels of profitability is entirely credible. While they were still running significant losses in 2019 on

$4.8 billion in revenue, when Booking was at the same level of revenue about a decade ago, they were already reporting profit margins at the levels that Airbnb says they'll get to someday.

So, the primary competitive concern for Booking Holdings is whether or not leisure travelers may start to book more of their hotel reservations via a competing third party or by being more likely to book directly with hotels. Honestly, we are just not concerned about other online travel agents. There is nothing particularly new that they are doing that would change the competitive dynamics with Booking. While there are some newer OTAs seeing surges in popularity, that has regularly been the case in the past as well and is just part of the normal competitive industry dynamics. But what we do monitor closely is the Google Hotels search product.

Ensemble Capital discussed Google Hotels in a blog post titled [Who's Scared of Google? Not Booking Holdings](), in December of 2019 just a few months prior to COVID. Our contention at the time was that while the Google Hotels search product was very bad news for online travel companies that depended on free organic search results to drive traffic to their sites, Booking Holdings had built their business around paid Google ads. While we said we were monitoring Google Hotels closely, we did not see it having a material negative impact on their business.

So far, our contention appears to have played out as we expected. According to research by Bernstein, 83% of all clicks and 89% of sales inside of Google Hotels are made via paid rather than free listings. And the conversion rate, or the frequency with which a traveler who clicks on a hotel listing completes a reservation, is 65% higher for paid listings.

In addition, Booking focuses on working with independent hotels, rather than the major brands. While the major brands are advertising heavily within Google Hotels, just as they advertise heavily elsewhere, independent hotels in the US are 67% less likely to advertise inside of Google Hotels than their big brand competitors. And in Europe, where independent hotels make up much more of the market than in the big brand dominated US market, only a third of all hotel listings include a direct booking option in Google Hotels.

The simplistic narrative about Booking Holdings is that they are nothing more than a logistical service provider that helps connect travelers with hotels. If this were the case, then Google as well as many other service providers could easily compete. But Booking Holdings doesn't sell internet traffic. They provide hotels with booked guests. Getting guests to book a room at your hotel is not just a logistical problem, it is a marketing problem, and one that Booking is widely regarded as the very best in the business at solving.

While big, branded hotels employ their own team of top-notch marketers, this simply isn't possible for small, independent hotels and chains. So, the existence of Google Hotels as one more place for a hotel to place an ad does not fundamentally change the fact that getting people to book hotel rooms is challenging. Less than 5% of the time that someone clicks on a paid hotel ad in Google Hotels do they actually complete a reservation. It is clear that placing an ad and getting a traveler to click over to your website is only a small part of the problem that hotels need to solve. This is why hotels only having to pay Booking for a confirmed reservation makes their value proposition so attractive.

While the fact that the US hotel market is much more dominated by large chains than Europe tempers the degree to which we think Booking can expand in the US, there is no doubt that they are using the massive disruption of COVID and their own very healthy financial status to launch a major strategic initiative in the US. In 2020, Booking.com ads for US hotels in Google Hotels were the top listing only 29% of the time, in second place behind Expedia owned Hotels.com. But in 2021, Booking.com ads are showing up in the top listing an incredible 72% of the time, with Hotels.com plummeting to winning the top spot only 18% of the time.

There is no doubt in our mind that humanity's long-term interest in leisure travel has been unaffected by COVID. It is too core to the human experience to be disrupted by a couple years of a health crisis. We believe the company remains the most important source of business for independent hotels and will remain so for a very long time. They have been in a highly cooperative relationship with Google for many years, illustrated by the fact that Booking is thought to be one of Google's very largest advertising customers.

Until COVID is firmly behind us, we expect continued volatility in Bookings results. But questions about them surviving the pandemic are now firmly in the past, as we expected they would be even during the first weeks of the global COVID outbreak.

Landstar: The global supply chain has been in the news a lot in the past eighteen months. In 2020, the threat of COVID and related lockdowns shuttered "non-essential" production. While most logistics companies were considered "essential," they naturally scaled back as well. Layoffs or furloughs were common. Some cargo ships, planes, and trucks were temporarily taken off-line as the world sorted itself out.

And then just like that, the world economy came roaring back – and faster than expected. The American consumer in particular started spending and the global supply chain was not fully prepared for it. Dozens of cargo ships are currently stuck offshore waiting to unload at the port of Los Angeles, warehouses are full, trucks are hard to come by, and freight rates have surged higher due to the supply and demand imbalance. In a recent Financial Times article, the CEO of APM Terminals (a division of Maersk) said, "We need lower [consumer demand] growth to give the supply chain time to catch up, or differently spread out growth."

Despite rising freight prices, new long-haul or "truckload" drivers have been slow to get in on the action. In August, one fleet owner was so in need of drivers it offered up to $20,000 as sign-on bonuses for eligible drivers. In a perfectly rational market without barriers to entry or exit, you'd expect drivers to jump on these large signing bonuses on top of more attractive base pay.

So, what's going on? Put simply, there aren't enough young people coming up the ranks to offset veteran driver retirements. The average age of an American truck driver is between 46 and 50 years old and early retirements are common. Veterans understand well that it's a cyclical business and the end of upcycles often spurs them to exit the industry. In 2019, the American Trucking Association estimated the industry was short about 60,000 drivers and unless more young people entered the industry, the under-supply could swell as high as 160,000 drivers by 2028. And that was before Covid hit. Since then, industry employment has fallen even further.

The broader North American logistics industry is massive, totaling $1.4 trillion in revenue, according to SJ Consulting. For-hire truckload driving accounts for about a quarter of that total, so it's a critical artery in the supply chain, but it's also highly fragmented. In 2019, Knight-Swift held a 1.2% market share, which was the largest in the industry. Moreover, 80% of the fleets have between 1-3 tractors, meaning much of the industry is run by small businesses.

Running a small business on wheels is hard, particularly because it includes a lot of paperwork, regulations, and a difficult lifestyle. Truckload drivers are often away from home for days or weeks at a time. These factors also contribute to the lack of new driver supply in the industry. Truckload driver turnover routinely hovers around 100% compared with less-than-truckload drivers (who tend to be home every night) at 10-15%.

The pay drivers receive for hauling a load is revenue rather than profit and the driver must cover fuel, maintenance, truck and trailer payments, and remit other permits and tolls before he or she pockets any for themselves. Industry media site, Freightwaves, estimates that it costs about $118,000 per year to operate a truck before salary and benefits for a truck driving 120,000 miles a year.

With that industry backdrop in mind, we believe Landstar is well positioned to help drivers maximize their take home pay and keep their trailers full as they crisscross the country. We've owned Landstar for over a decade in the strategy and we continue to be impressed by the company's advantages and its operational execution.

Landstar is a platform that connects shippers with agents and carriers to ensure quality cargo delivery. While Landstar also helps shippers move goods via ocean and rail, 90% of its revenue comes from connecting shippers with truckload drivers. We believe Landstar's moat is rooted in network effects. The more agents and drivers join the network, the more effectively the platform can serve the needs of shippers looking to move goods. The more loads that flow through the network, the more eagerly agents and drivers want to join the network.

Landstar's agents are independent, and their revenue is commission driven, so they are incentivized to build relationships with shippers and seek out higher priced loads, which tend to be more difficult loads. In 2020, Landstar had 508 agents who generated over $1 million in revenue. Some of these agencies are staffed by multiple people, but it shows that being part of the Landstar network can be lucrative for talented agents.

When a Landstar agent gets a job request from a shipper, he or she looks first for available Landstar Business Capacity Owner trucks (more on that in a moment) and if none are available, will look for available "approved" brokerage trucks.

BCOs are also independent drivers who are not employed by Landstar but have committed to hauling only Landstar loads. They own their own tractors and may or may not also own their trailers. At the end of June, there were 11,557 trucks committed to the BCO network. Depending on the type of haul, Landstar pays BCO drivers between 65-75% of the load price. This is considerably less than the 80-85% that non-BCO drivers receive in the Landstar network, but there are two key factors to consider here.

First, BCO drivers eat first. In the event that the industry cools, being part of the BCO network keeps your trailer fuller than if you were a free agent. Second, Landstar provides BCO drivers with additional benefits like quicker payment and discounts on fuel, tires, and equipment, which together account for about half of a truck's expenses. By helping drivers reduce back-office complexity, BCO drivers can focus their attention on driving. BCO driver turnover is around 25%, most of which come from retirements and much of which represents new drivers who don't make it through their first year, versus the industry average around 100%, which speaks highly of the program's value.

In recent years, we've monitored potential threats to Landstar's model, including digital brokerages like Uber Freight and Convoy, which eliminate the agent and directly connect the shipper with the driver. One of the reasons Uber successfully disrupted the taxi industry is that it unlocked dormant supply of cars and drivers. It's a different story in the trucking industry where there isn't dormant supply. Instead, Uber and Convoy entice drivers by paying them nearly the full load price. Not only does Landstar have similar mobile technology for its drivers, but because its loads tend to be non-standard (oversized loads, etc.), its customers often prefer to have a human agent to call to oversee a complicated shipment.

We view higher load rates to be sustainable. While we recognize that the industry is inherently cyclical, we also believe that drivers have been underpaid for some time and what we're seeing is a "catch up" to better match driver income needs and higher costs related to driving a truck. Load prices will continue to fluctuate in the coming years, but we believe the floor has been reset higher. Based on consensus analyst estimates, we do not think the market fully appreciates this shift and we believe Landstar will continue to capitalize on the improved environment.

Disclosures

2021 Q3 Contributors and Detractors to Absolute Return Data

Description	Symbol	Average Weight	Contribution	Description	Symbol	Average Weight	Contribution
Netflix, Inc.	NFLX	8.14%	1.23%	Broadridge Financial Solutions, Inc.	BR	3.02%	0.11%
Chipotle Mexican Gril, Inc.	CMG	4.58%	0.88%	Paychex, Inc.	PAYX	1.89%	0.10%
Masimo Corp.	MASI	6.19%	0.83%	Ferrari NV	RACE	4.48%	0.07%
Alphabet, Inc. Class-A	GOOGL	7.27%	0.71%	Landstar Systems, Inc.	LSTR	2.61%	0.02%
Booking Holdings, Inc.	BKNG	4.63%	0.51%	Fastenal Co.	FAST	2.85%	0.00%
Intuitive Surgical, Inc.	ISRG	3.46%	0.33%	Charles Schwab Corp.	SCHW	3.86%	0.00%
Home Depot, Inc.	HD	8.52%	0.30%	Starbucks Corp.	SBUX	2.25%	-0.01%
Costco Wholesale Corp.	COST	2.19%	0.28%	Heico Corp. Class-A	HEI/A	1.93%	-0.06%
First American Financial Corp.	FAF	3.49%	0.28%	NVR, Inc.	NVR	3.76%	-0.13%
ServiceNow. Inc.	NOW	1.78%	0.21%	Mastercard Inc. Class-A	MA	7.59%	-0.35%
First Republic Bank	FRC	6.38%	0.20%	Illumina, Inc.	ILMN	3.31%	-0.48%
Blackline, Inc.	BL	1.86%	0.12%	Nintendo Co LTD	NTDOY	3.64%	-0.73%

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